

A Day at the Races: Stepping Up to the Betting Windows of Investing

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With the 140th “Run for the Roses” fast approaching, my thoughts have turned to the Kentucky Derby and horse racing in general. During “Derby Week” the city of Louisville comes alive with the sights and sounds of rabid horse racing fans. If your only familiarity with horse racing is a weekday afternoon at your friendly neighborhood racetrack (many of which sit empty even on the weekend) then it’s probably difficult for you to picture exactly what the Kentucky Derby is like.

The place is filled to capacity. “Millionaires Row” is crowded with A-list celebrities. The grandstands teem with cigar smoke, plaid jackets, straw hats, and attention-grabbing fashion statements. Yours truly will be rail-side in a clubhouse box seat, far from the debauchery of the track’s infield (where I first cut my teeth on Derby betting).

If you were new to America and your only experience with horse racing was the Kentucky Derby, then you would conclude that horse racing is the most popular spectator sport in America. You would be wrong, of course, but your conclusion would at least have an element of logic to it.

On Derby Day there are hundreds of thousands of people — many of whom don't know a thoroughbred from a nag — who wager tens of millions of dollars as if they were the owner and breeder of Secretariat. The wagering is a sport in itself, and holds many similarities to investing. In either “sport” the educated wager (or your investment) generally wins the purse. So in honor of the Kentucky Derby, here's a tip sheet that will keep you from betting on “Old Paint” and have you walking away from the Derby smelling like roses.

TIP #1: Don't Bet Every Race — Be Patient and Selective

A typical day at the track has a 10-race card. The most exciting time at the race track is when the race is going on. However, the time between races can be like watching paint dry. There's a temptation for bored bettors to place a wager on every single race, which is a big mistake. Not every race is worth wagering on. In some races your strategy hasn't identified a clear favorite; in others, the risk-reward factor is too low.

The same can be said for investing. There's an itch to want to change your portfolio every day. But the fact is that sometimes the best course of action is no action. Disciplined traders and investors will wait for a buy or sell price signal before making a move. And that signal could take days or weeks to show itself, which means you must remain patient and be very selective.

TIP #2: Terminate the Losers

Choosing winners ain't easy. However, if you can get rid of the losers, then you're more likely left with a group of winners. It's like taking a multiple-choice test. You have four possible answers and you can easily eliminate two answers that are definitely wrong. So you've doubled your percentage of success from 25 percent to 50 percent. It's the same at the race track. I evaluate a race by drawing a line through those horses that have no chance of winning.

You can do the same with investing. If your goal is to outperform the Standard and Poor's 500 (S&P), you need to own investments that are performing better than the index. One of the best tools to help you determine whether your investments are under or outperforming your benchmark is called “relative strength.” Relative strength is simply comparing one thing to another. With your portfolio in hand, you compare each and every investment with the S&P 500 and eliminate those that are under-performing the market. This simple tip enables you to come closer to outperforming the index.

TIP #3: Know Thyself — Control Your Emotions

Maintaining sanity is hard to do when the Dow Jones Industrial Average plummets 500 points in a single day and you're staring at a decline of four to five percent of your portfolio. When you have not cashed a ticket all day, it can wreak havoc on self-control. However, successful investors and racetrack hounds are certainly going to have winning streaks as well as losing streaks, which are normal over the course of a lifetime.

A trait of a true professional is that it's not easy to tell whether they're winners or losers. If you can't handle the emotional ups and downs of the stock market game, find an expert you can trust and turn your portfolio over to them. If you can't handle the emotional ups and downs of betting on horses, then wager only enough to have fun and enjoy your day at the races.

TIP #4: Do Your Research

Selecting a horse that produces a winning ticket is no easy task. There are many factors that must be considered in deciding on which horse to bet on. These factors could include the length of the race, the style of the horse, the jockey, the track conditions, the bloodline, post position, the horse's track record and the trainer. It's foolish to choose a horse based upon its name, post position or the jockey's colors even though many people do. You have to do your research. This means that, as a bettor, you must read Len Ragozin's "The Sheets." The Sheets are refined speed figures that theoretically allow someone to identify patterns based on those numbers. It's like technical analysis, except for horses.

The same meticulous method is necessary for investing in the stock market. You wouldn't invest in a company solely based on its logo or name. Think about it: If your last name was McDonald, would you invest blindly in McDonald's Corp.? If your favorite color was red, would you invest in Coca-Cola because their logo is red? I would hope not. To make a prudent investment you must conduct ample research.

TIP #5: Stick With Your Strategy

There are many successful strategies for investing and cashing in a winning ticket at the track. The true professional has a strategy that he believes will produce a return on his investment. Watch the vast majority of "newbies" at the racetrack and you'll see that their approach is free of any strategy and there's no reward once the races are over. Instead, they make generous donations to the betting pools, which is good news for anyone who is employing a good horse racing strategy because it's money that they will surely win.

So whether you're trying to choose what financial vehicles to dump your retirement savings into, or screaming for that also-ran to make it down the backstretch, make sure that your decisions are informed and well researched. Or else you may see yourself on the fast track to being put out to pasture.



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